

ORIGINAL

OPEN MEETING



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MEMORANDUM

Arizona Corporation Commission

DOCKETED

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AZ CORP COMMISSION
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: January 2, 2008

DOCKETED BY	
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RE: ARIZONA PUBLIC SERVICE COMPANY'S FUEL AUDIT IMPLEMENTATION PLAN (DOCKET NOS. E-01345A-05-0816, E-01345A-05-0826, AND E-01345A-05-0827)

In Docket No. E-01345A-05-0827, Staff had engaged The Liberty Consulting Group ("Liberty") to conduct an examination and audit of the management and operations of the fuel and purchased power functions at Arizona Public Service Company ("APS"), and to formulate recommendations. As a result of the audit, Liberty reached 69 conclusions and made 20 recommendations.

Commission Decision No. 69663 required APS to file within 60 days an implementation plan for each Liberty audit recommendation it accepted and a detailed explanation supporting each recommendation it did not accept. Upon review of that report, Staff was to identify the best method for monitoring APS' implementation plan and for resolving any issues in dispute. APS filed its "Fuel Audit Implementation Report" on August 27, 2007. On October 25, 2007, Staff filed its Staff Report in which Staff responded to the APS report.

APS was in general agreement with the findings of the Liberty audit and has undertaken some actions to implement the audit's recommendations. In a few cases, Staff believes that certain additional implementation activities are required. This memo addresses the outstanding issues as discussed in the October 25, 2007, Staff Report.

Staff recommends that APS be ordered to implement the following activities:

Organization, Staffing, and Controls

1. In its procedures for acceptance of offers for gas supply, APS should incorporate a provision that would call for periodic reviews of in-bounds transactions to verify that their departure from an identified benchmark (e.g. median prices) is random, and not preponderantly in a direction that would suggest lost value to the utility. These periodic reviews need not be as frequent as the weekly baseline reviews planned by APS.
2. APS should permit access to its Board of Directors in any future audit or prudence review conducted by Staff, as appropriate.

Fuel Management

3. APS should provide the management summary report documenting the changes made for handling information on coal weights at the Cholla Station. Further, APS should provide the cost/benefit analysis conducted on the existing process at Four Corners that resulted in the determination that changes in processes at this station were not necessary.
4. APS should file a report detailing its analysis of natural gas purchasing and management under El Paso Natural Gas' revised rate structure by the third quarter of 2008.

Hedging and Risk Management

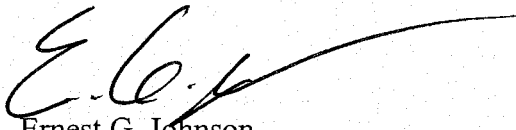
5. APS should provide Commission Staff with a report on meetings with customer group representatives regarding the hedging program and customer preferences, and should, after consultation with Staff, identify proposed means for addressing issues or concerns raised by those meetings.
6. APS should report to Commission Staff when the transfer of its non-utility gas and power commodity positions to Morgan Stanley has been completed. APS should also report quarterly on continued close-out actions, schedule for completing the remainder of those actions, and any changes to its plan or schedule for final close-out.

Plant Operations

7. APS should conduct reserve level analyses with both 50/50 and 90/10 load forecasts, incorporate the constraints of the Phoenix Load Pocket into those analyses via a two-area calculation, and provide to Commission Staff an analysis demonstrating that the ultimate approach and load forecast used by APS for determination of its overall reserve level and transmission capability into the Phoenix Load Pocket is adequate.
8. APS should submit to Commission Staff its plans to reach the six-year average forced outage rates stated in Managerial Policy O-11, detailing what will be required for boiler component replacements, other improvements, and the anticipated benefits of each for each of its generating units listed.
9. APS should commission an expert and independent review of a sufficient number of APS root cause investigations and analyses of operator and maintenance errors (involving generating stations) to verify that the conduct of the analyses has been sound and effective, and, if not, to recommend any appropriate improvements.

Purchased Power and Off-System Sales

10. APS should report on the results of its efforts to seek a means for capturing the benefits of specific opportunities for transmission optimization transactions in a means that adequately mitigates utility risk, if those opportunities are still present.



Ernest G. Johnson
Director
Utilities Division

EGJ:BEK:lhmkT

ORIGINATOR: Barbara Keene

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BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF ARIZONA PUBLIC
SERVICE COMPANY'S FUEL AUDIT
IMPLEMENTATION PLAN

DOCKET NOS. E-01345A-05-0816
E-01345A-05-0826
E-01345A-05-0827

DECISION NO. _____
ORDER

Open Meeting
January 15 and 16, 2008
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS") is certificated to provide electric service as a public service corporation in the State of Arizona.
2. In Docket No. E-01345A-05-0827, Staff had engaged The Liberty Consulting Group ("Liberty") to conduct an examination and audit of the management and operations of the fuel and purchased power functions at APS, and to formulate recommendations. As a result of the audit, Liberty reached 69 conclusions and made 20 recommendations.
3. Commission Decision No. 69663 required APS to file within 60 days an implementation plan for each Liberty audit recommendation it accepted and a detailed explanation supporting each recommendation it did not accept. Upon review of that report, Staff was to identify the best method for monitoring APS' implementation plan and for resolving any issues in ...

1 dispute. APS filed its "Fuel Audit Implementation Report" on August 27, 2007. On October 25,
2 2007, Staff filed its Staff Report in which Staff responded to the APS report.

3 4. APS was in general agreement with the findings of the Liberty audit and has
4 undertaken some actions to implement the audit's recommendations. In a few cases, Staff believes
5 that certain additional implementation activities are required. This document addresses the
6 outstanding issues as discussed in the October 25, 2007, Staff Report.

7 5. Staff has recommended that APS be ordered to implement the following activities:

- 8 • In its procedures for acceptance of offers for gas supply, APS should
9 incorporate a provision that would call for periodic reviews of in-bounds
10 transactions to verify that their departure from an identified benchmark (e.g.
11 median prices) is random, and not preponderantly in a direction that would
12 suggest lost value to the utility. These periodic reviews need not be as
13 frequent as the weekly baseline reviews planned by APS.
- 14 • APS should permit access to its Board of Directors in any future audit or
15 prudence review conducted by Staff, as appropriate.
- 16 • APS should provide the management summary report documenting the
17 changes made for handling information on coal weights at the Cholla Station.
18 Further, APS should provide the cost/benefit analysis conducted on the
19 existing process at Four Corners that resulted in the determination that changes
20 in processes at this station were not necessary.
- 21 • APS should file a report detailing its analysis of natural gas purchasing and
22 management under El Paso Natural Gas' revised rate structure by the third
23 quarter of 2008.
- 24 • APS should provide Commission Staff with a report on meetings with
25 customer group representatives regarding the hedging program and customer
26 preferences, and should, after consultation with Staff, identify proposed means
27 for addressing issues or concerns raised by those meetings.
- 28 • APS should report to Commission Staff when the transfer of its non-utility gas
and power commodity positions to Morgan Stanley has been completed. APS
should also report quarterly on continued close-out actions, schedule for
completing the remainder of those actions, and any changes to its plan or
schedule for final close-out.
- APS should conduct reserve level analyses with both 50/50 and 90/10 load
forecasts, incorporate the constraints of the Phoenix Load Pocket into those
analyses via a two-area calculation, and provide to Commission Staff an
analysis demonstrating that the ultimate approach and load forecast used by

1 APS for determination of its overall reserve level and transmission capability
2 into the Phoenix Load Pocket is adequate.

- 3 • APS should submit to Commission Staff its plans to reach the six-year average
4 forced outage rates stated in Managerial Policy O-11, detailing what will be
5 required for boiler component replacements, other improvements, and the
6 anticipated benefits of each for each of its generating units listed.
- 7 • APS should commission an expert and independent review of a sufficient
8 number of APS root cause investigations and analyses of operator and
9 maintenance errors (involving generating stations) to verify that the conduct of
10 the analyses has been sound and effective, and, if not, to recommend any
11 appropriate improvements.
- 12 • APS should report on the results of its efforts to seek a means for capturing the
13 benefits of specific opportunities for transmission optimization transactions in
14 a means that adequately mitigates utility risk, if those opportunities are still
15 present.

12 CONCLUSIONS OF LAW

- 13 1. Arizona Public Service Company is an Arizona public service corporation within
14 the meaning of Article XV, Section 2, of the Arizona Constitution.
- 15 2. The Commission has jurisdiction over Arizona Public Service Company.
- 16 3. The Commission, having reviewed Staff's Memorandum dated January 2, 2008,
17 concludes that it is in the public interest to approve Staff's recommendation.

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ORDER

IT IS THEREFORE ORDERED that Arizona Public Service Company shall implement the activities listed in Finding of Fact No. 5.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I DEAN S. MILLER, Interim Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2008.

DEAN S. MILLER
Interim Executive Director

DISSENT: _____

DISSENT: _____

EGJ:BEK:lhmk/T

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